



## State of Connecticut

### HOUSE OF REPRESENTATIVES STATE CAPITOL

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### Testimony

## SB 1136: An Act Concerning Property Tax Reform

### Finance, Revenue, and Bonding Committee

April 21, 2015

Senator Fonfara, Representative Berger, Senator Frantz, Representative Davis, and distinguished members of the Committee, thank you for the opportunity to offer comments on SB 1136: An Act Concerning Property Tax Reform.

This bill proposes certain modifications to legislation regarding the municipal revenue sharing account (MRSA). The MRSA is a General Fund account that is meant to be funded by a portion of state sales and use taxes raised locally. Its revenues are then meant to be returned to municipalities. Since it was formed in 2012, the MRSA has been repeatedly underfunded, and municipalities have not received the totality of their anticipated grants.

According to its statement of purpose, SB 1136 aims to encourage regional cooperation among COG member municipalities and to make it financially feasible for municipalities to reduce car property tax rates.

The bill's notable provisions are:

- It allows the members of any COG to establish, by unanimous consent, a regional cooperation program designed to create service efficiencies and reduce costs, and to receive grants for that purpose.
- It requires towns and cities, from October 15, 2015, to set their motor vehicle property taxes at a mill rate no higher than 35.
- It creates a revenue stream for the MRSA by depositing into the account one-fourth of one percent of a list of sales and use taxes enumerated in existing statutes.
- MRSA funds would be available for four purposes. First, in order of priority, they would pay for the \$49.9 million in manufacturing transition grants scheduled under existing statute to be distributed directly to municipalities. Then, they would pay for grants to COGs related to regional cooperation agreements and to car tax reductions. Finally, any funds remaining after these three types of disbursements would be distributed directly to municipalities according to a formula specified in existing statutes.

I believe that certain principles underlying the bill are sound. I support regional cooperation when it is voluntary and not mandated. There is no question that there is a need for an effective mechanism to provide state funding to municipalities. The inconsistency of car tax rates statewide is longstanding and needs resolution.

That said, I have a number of concerns about the bill:

- Section 2 and Section 4(c) suggest that COGs that create regional cooperation programs would be eligible for MRSA grants. Section 4(a) indicates that these grants would be awarded at the sole discretion of the Secretary of the Office of Policy and Management (OPM). No procedure, criteria, or competitive process is delineated.
- Section 3 suggests that each COG would receive an MRSA grant in relation to reductions in the municipal car tax. The language is exceedingly vague. If the purpose of this grant is to reimburse towns that would lose revenue due to vehicle mill rate reductions, it is not clear. There is no distinction between towns that would lose and those that would not. Section 3 says that each COG would distribute its grant to its members in proportion to the amount of sales and use tax they collect. Once again, according to Section 4(a), the grants to COGs would be awarded at the sole discretion of the OPM Secretary.
- In the case of both types of grants to COGs, the bill gives OPM decision-making authority over the use of taxpayer funds without any oversight, for example, by the General Assembly.
- The bill offers no guidance to COGs on what they must do to receive grants for regional efficiencies or savings. Members could invest considerable time and receive no financial incentive.

- Because the language regarding grants to COGs is so vague, it offers no assurance of revenue replacement to municipalities that would be required to reduce their car taxes. Towns and cities with unchanged car mill rates could find themselves subsidizing the “equalizing grants”. And if there were not enough funds to go around, it is even possible that all municipalities could lose money, regardless of their mill rates.
- MRSA funds have been diverted for other General Fund purposes in the past, and the bill does not address how to prevent this in the future.

Finally, the bill inserts COGs into a funding mechanism that has until now involved only municipalities and the state. In my testimony on SB 1 before the Planning and Development Committee a few weeks ago, I noted my concerns about that bill’s proposals for involving the COGs in collection and redistribution of local property taxes (I have attached that testimony here for reference, and here also is the link: <http://www.cga.ct.gov/2015/PDdata/Tmy/2015SB-00001-R000318-Representative%20Gail%20Lavielle-TMY.PDF>).

SB 1136 raises similar questions, particularly in regard to the car tax grant provisions in Section 3, because the role of the COGs in distributing the grants seems unnecessary. They appear to add nothing to the process except another layer of administration, or the possibility of exercising regional influence with OPM, which can make grant allocation decisions on whatever basis it chooses. This situation multiplies the possibilities for inequitable decisions.

As you assess this bill, I would respectfully urge the members of the Committee to increase protections for the MRSA funding stream, to provide guidelines and criteria for the regional cooperation grants, and either to remove or to substantially modify the provisions related to the car tax. Thank you for your consideration of these suggestions.





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### **Testimony**

#### **in Opposition to**

#### **SB 1: An Act Concerning Tax Fairness and Economic Development**

#### **Planning and Development Committee**

Senator Osten, Representative Miller, Senator Linares, Representative Aman, and distinguished members of the Committee, thank you for this opportunity to comment on SB 1, An Act Concerning Tax Fairness and Economic Development.

My comments focus on Sections 51-55 of the bill. These sections require the establishment of a "regional property tax base revenue sharing system". Under this system, each municipality would remit a portion of its local property taxes to its regional Council of Governments (COG), which would in turn redistribute those funds among all of its member towns and cities, according to a formula that takes into account factors including each municipality's population and property value.

Connecticut residents expect to pay taxes to their state and federal governments and to see them used to fund activities, services, and structures outside of their hometowns. While local property taxes are burdensome for many, residents have at least had the assurance that they would be used to pay for services in their own towns or cities. This

bill, however, would create a new level of government that would absorb a portion of these local taxes and then allocate these funds to other cities or towns.

Inevitably, certain municipalities would gain revenues through this process and others would lose. Those that lose would likely face important shortfalls in their local budgets. To continue to provide essential services to their residents and local businesses, they would be required to raise local taxes, in many cases quite considerably. The result: residents would pay more in order to sustain the new layer of regional government, while also paying more just to maintain essential services in their own municipalities.

In 2013, when the General Assembly passed legislation reorganizing Connecticut's regions and imposing the COG structure on all regional planning organizations, there was much discussion about its implications. Many municipal CEOs expressed concerns that their local revenues would be distributed elsewhere. One town CEO from my area said that in this case, "Not only might well-managed towns receive less, but more of our resources would also go to municipalities with no record of using the funding they already receive wisely."

On June 3, 2013, I participated with several others on the House floor in a lively and interesting debate of HB 6629, the precursor bill to the COG/regional reorganization legislation passed a few days later. We were assured during the debate by the proponents that COGs would "not be dealing with property taxation issues on a regional basis or any other level of taxation". That assurance is not upheld in SB 1.

Although we may never call our COGs "county government", this bill is a move in that direction. If SB 1 passes as written, Connecticut's regional structure could acquire the same administrative and cost burdens, bureaucratic complexity, and loss of local access to and authority over local revenues that characterize county government – no matter what we call it.

I cannot support this regional tax base revenue sharing proposal because I believe that it will create severe financial stress for individuals, businesses, and municipalities that are already struggling under one of the country's heaviest combined tax burdens. I also believe that it will lead to a significant loss of residents' ability to shape and maintain the character of their towns over time.

I hope the Committee will choose not to pass this legislation. If that is not possible, however, I strongly urge the Committee to characterize it accurately and with all possible transparency to ensure that members of the public and their elected officials fully understand it. Creating a new level of government that collects and distributes tax revenues is not a step that should be taken without widespread public support.